

North Dakota REV-E-NEWS



Pam Sharp, Director

OFFICE OF MANAGEMENT AND BUDGET

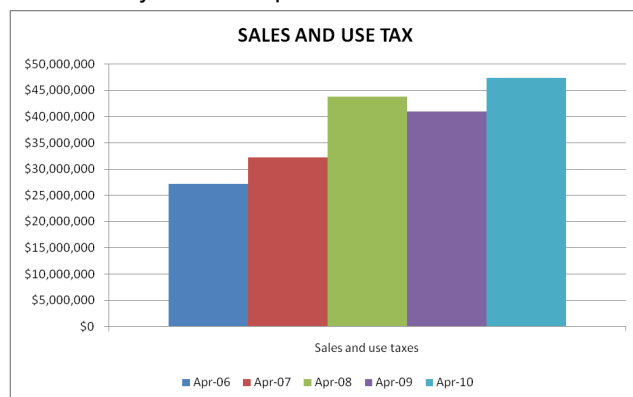
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MESSAGE FROM THE DIRECTOR

As the national recession lingers, tax revenues in most states continue to decline. The result is a severe budget crisis for most states. In the midst of this crisis, North Dakota stands apart with stable revenue growth and the nation's lowest unemployment rate. However, the state's economy is not completely insulated from the effects of the national recession.

April showed encouraging growth in both sales tax and motor vehicle excise taxes. Sales taxes exceeded the legislative forecast by nearly 10.0 percent and motor vehicle excise taxes exceeded the forecast by over 50.0 percent.



However, consistent with what other states are seeing, income tax collections fell short of the forecast. Individual income tax collections had slightly exceeded the forecast until this month, when a shortfall of \$15.7 million dropped biennium to date collections 4.3 percent below the forecast. The

shortfall appears to be due to investment losses and weak growth in unearned income, such as dividends and interest. The investment losses and weakness in unearned income are attributable to the effects of the national recession.

Corporate income tax collections continue to fall below the forecast, due primarily to the fact that a majority of North Dakota corporate income tax payers are national corporations whose income has been negatively affected by the national recession.

For the general fund, the positive news is that even after the impact of this April revenue shortfall, an end of biennium surplus of over \$23.0 million is anticipated.

General Fund Status (Millions)	
Beginning Balance & Estimated Revenues	\$3,279.3
Less Estimated Expenditures	<u>3,255.9</u>
Estimated Ending Balance	\$23.3

For the state budget overall, growth in oil production continues to have a positive impact on revenues. The general fund share of oil revenues is capped at \$71.0 million, but additional oil tax revenues are deposited into the permanent oil tax trust fund. Deposits into this fund were over \$40.0 million in April alone and total nearly \$180.0 million for the biennium to date. In addition, the budget stabilization fund, which is available to offset any general fund revenue shortfall, has a balance of \$325.0 million.

The strong labor market, diversified economy, and healthy state government reserve balances leave North Dakota in an enviable position among state governments nationwide.

OIL ACTIVITY

The legislative revenue forecast for the 2009-11 biennium is based on gradually increasing oil price and production – starting at \$40 per barrel and 205,000 barrels per day and ending the biennium at \$55 per barrel and production of 225,000 barrels per day. Currently, the Tesoro posted price for North Dakota crude is around \$57 per barrel. Production jumped to a new all time record in March. The current rig count is 114, compared to only 34 operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



	Mar 2010	Feb 2010	Jan 2010
ND sweet crude price per barrel	\$71.20	\$67.58	\$68.57
Production (barrels/day)	277,400	261,200	236,000
Drilling permits	120	94	101
Producing wells	4,736	4,655	4,628
Rig count	102	93	81

Comments or Questions?

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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2009-11 Biennium April 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2009 Leg. Forecast	Actual	Variance	Percent	May 2009 Leg. Forecast	Actual	Variance	Percent
Sales Tax	43,119,000	47,318,660	4,199,660	9.7%	471,982,000	460,145,760	(11,836,240)	-2.5%
Motor Vehicle Excise Tax	3,842,000	5,901,844	2,059,844	53.6%	31,333,000	44,906,351	13,573,351	43.3%
Individual Income Tax	101,184,000	85,451,448	(15,732,552)	-15.5%	291,442,000	278,994,976	(12,447,024)	-4.3%
Corporate Income Tax	28,267,000	12,448,948	(15,818,052)	-56.0%	91,050,000	63,017,130	(28,032,870)	-30.8%
Insurance Premium Tax	200,000	130,950	(69,050)	-34.5%	24,035,000	22,703,861	(1,331,139)	-5.5%
Financial Institutions Tax	2,972,000	2,406,056	(565,944)	-19.0%	4,260,000	2,781,564	(1,478,436)	-34.7%
Oil & Gas Production Tax*					39,309,315	32,718,333	(6,590,982)	-16.8%
Oil Extraction Tax*	1,863,000		(1,863,000)	-100.0%	18,176,000	38,281,667	20,105,667	110.6%
Gaming Tax	632,742	859,372	226,630	35.8%	6,404,553	6,808,047	403,494	6.3%
Lottery								
Cigarette & Tobacco Tax	1,603,000	1,820,692	217,692	13.6%	18,967,000	18,605,039	(361,961)	-1.9%
Wholesale Liquor Tax	546,000	632,962	86,962	15.9%	5,472,000	6,094,629	622,629	11.4%
Coal Conversion Tax	2,071,000	1,435,695	(635,305)	-30.7%	15,996,000	16,352,305	356,305	2.2%
Mineral Leasing Fees	1,800,000	1,501,302	(298,698)	-16.6%	9,300,000	6,507,140	(2,792,860)	-30.0%
Departmental Collections	1,998,427	1,605,257	(393,170)	-19.7%	25,592,831	28,654,165	3,061,334	12.0%
Interest Income	762,566	711,815	(50,751)	-6.7%	9,788,995	8,545,506	(1,243,489)	-12.7%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					295,000,000	295,000,000	0	0.0%
Other Transfers	161,000	161,000	0	0.0%	644,000	1,763,688	1,119,688	173.9%
Total Revenues and Transfers **	191,021,735	162,386,001	(28,635,734)	-15.0%	1,358,752,694	1,331,880,161	(26,872,533)	-2.0%

* Oil and gas production and extraction tax collections totaled \$40.4 million in April. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through April, oil tax collections totaling \$179.4 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

** Biennium to date variance from legislative forecast is -\$26.9 million, but the general fund continues to run an end of biennium surplus of \$23.3 million relative to expenditures.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Previous Biennium Revenues 2009-11 Biennium April 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	April 2008	April 2010	Variance	Percent	2007-09	2009-11	Variance	Percent
Sales Tax	43,731,411	47,318,660	3,587,249	8.2%	406,044,989	460,145,760	54,100,772	13.3%
Motor Vehicle Excise Tax	6,390,680	5,901,844	(488,836)	-7.6%	54,458,243	44,906,351	(9,551,892)	-17.5%
Individual Income Tax	107,917,446	85,451,448	(22,465,998)	-20.8%	276,313,756	278,994,976	2,681,220	1.0%
Corporate Income Tax	36,291,486	12,448,948	(23,842,537)	-65.7%	112,777,756	63,017,130	(49,760,626)	-44.1%
Insurance Premium Tax	238,601	130,950	(107,652)	-45.1%	25,505,347	22,703,861	(2,801,486)	-11.0%
Financial Institutions Tax	3,951,090	2,406,056	(1,545,034)	-39.1%	5,549,089	2,781,564	(2,767,526)	-49.9%
Oil & Gas Production Tax*					39,309,315	32,718,333	(6,590,982)	-16.8%
Oil Extraction Tax*					31,690,685	38,281,667	6,590,982	20.8%
Gaming Tax	754,892	859,372	104,480	13.8%	7,640,940	6,808,047	(832,893)	-10.9%
Lottery								
Cigarette & Tobacco Tax	1,705,206	1,820,692	115,486	6.8%	18,852,809	18,605,039	(247,770)	-1.3%
Wholesale Liquor Tax	548,017	632,962	84,945	15.5%	5,697,424	6,094,629	397,205	7.0%
Coal Conversion Tax	2,070,132	1,435,695	(634,437)	-30.6%	19,854,242	16,352,305	(3,501,937)	-17.6%
Mineral Leasing Fees	1,706,960	1,501,302	(205,658)	-12.0%	9,166,162	6,507,140	(2,659,022)	-29.0%
Departmental Collections	1,682,318	1,605,257	(77,061)	-4.6%	25,080,679	28,654,165	3,573,486	14.2%
Interest Income	1,398,213	711,815	(686,398)	-49.1%	17,948,732	8,545,506	(9,403,226)	-52.4%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer					115,000,000	295,000,000	180,000,000	156.5%
Other Transfers	159,257	161,000	1,743	1.1%	675,411	1,763,688	1,088,277	161.1%
Total Revenues and Transfers	208,545,708	162,386,001	(46,159,708)	-22.1%	1,171,565,579	1,331,880,161	160,314,582	13.7%

* Oil and gas production and extraction tax collections totaled \$40.4 million in April. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through April, oil tax collections totaling \$179.4 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

April 2010 revenues were \$162.4 million, \$28.6 million less than projected in the legislative forecast. This includes the negative variance of \$1.9 million related to oil taxes. The oil tax variance results from a timing difference between the forecast and actual collections. The forecast assumed the \$71.0 million general fund cap on oil taxes would not be reached until June 2010. Due to higher than anticipated oil price and production, the general fund limit was reached in November 2009. Notable variances for the month are as follows:

- **Sales tax** collections for the month are \$4.2 million higher than the legislative forecast, narrowing the biennium to date shortfall to \$11.8 million, or -2.5 percent. Sales tax collections for the biennium to date are 13.3 percent higher than during the first ten months of the 2007-09 biennium.
- **Motor vehicle excise tax** collections again exceed the legislative forecast -- by \$2.1 million for the month and \$13.6 million for the biennium to date. The combined biennium to date variance for sales and motor vehicle excise tax is a positive \$1.8 million.
- **Individual income tax** collections were lower than anticipated, by \$15.7 million for the month. Collections had been tracking slightly above forecast, but are now \$12.4 million short for the

biennium. It appears that 2009 unearned income, such as dividends, interest, and royalties, was lower than anticipated due to the impact of the national recession, resulting in the April shortfall experienced in many states. However, in North Dakota, current income tax withholding on wages continues to be strong, reflecting the state's healthy labor market.

- **Corporate income tax** collections continue to lag the forecast, falling short by \$15.8 million for the month and \$28.0 million for the biennium to date. The majority of North Dakota's corporate taxpayers are national corporations which have been negatively impacted by the national recession.
- **Oil and gas tax** collections for the month are \$40.4 million, \$27.4 million more than estimated in the legislative forecast. The legislative forecast assumed March prices of \$47 per barrel and production of 210,000 barrels per day. March prices actually averaged \$71 per barrel and production averaged 277,400 barrels per day. However the cumulative general fund share of oil taxes for the biennium is statutorily limited to \$71.0 million. This cap was reached in November, so all additional oil tax collections through the end of the biennium will be deposited in the permanent oil tax trust fund.

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